

City Council Discussion Transcript – 10/21/2016

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>> I'm gonna go ahead and try to start this meeting, if we could. So it's a little awkward for me to be taking the lead in a meeting when I'm surrounded by a mayor, mayor pro tem, councilmember and board of trustees. >> Mayor Adler: We went through months of you taking lead. I don't know what you're talking about. [Laughter] >> This is what I would call a working group meeting of interested parties in the concept of a potential swap of services between the city of Austin and the school district. What we would be calling here a tax swap. And I'll get a little bit into what that might entail, and I have a presentation put together for it. But our council asked us to look into this, and in looking into it they also asked us to find a mechanism to include councilmembers and board of trustees who might be interested in this topic. We did notice this as a public hearing and that's why we're here today and the cameras are on. We thought there was a good potential there would be a quorum of councilmembers present or certainly a quorum of council offices. I do think we have that. We have a number of council offices here today. That's the purpose of the meeting, kind of the setup for the meeting. I do have -- can we get that presentation up? I want to talk a little about what I was hoping to do today. Of course this is everybody's meeting so if we want to stray from in agenda we certainly can. Given we have a lot of people that don't know one another I thought we could do introductions. We did lo to do a lot of work on this months ago, initial analysis, reported back to city council. I know it was districted to aisd board of trustees as well, and so I suspect that many of you haven't looked at it as recently as I have so I wanted to provide a brief summary of the initial study and what the some of the key legal parameters are.

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We have had follow-up meetings with aisd staff and done some revised analysis, taking into account some new considerations. One of the things our councilmembers asked us to do would be -- was to look into some of the issues that were identified by our prior city manager, Marc Ott, who had a number of concerns that he identified related to doing a tax swap maybe over and above some of the financial analysis. And then we've put together what we call a decision tree, kind of just trying to think of a way, how could we think through this problem? What's the first decision that needs to be made? If we clear that hurdle, what's the second hurdle we have to clear and maybe they progressively get more difficult. I'll talking about talk about -- talk about that. I have initial handouts I'll pass out. I think we have this group until 12:30 I can stay much later than that if we would like to but we are planning on this meeting wrapping up by 12:30 so I'll do my best to try to keep us on this agenda to get to all these important topics. I do want to do introductions first, perhaps I'll start and we can head around the table. I'm Ed van

eenoo, deputy chief financial officer for the city of Austin. >> Thank you, good morning, Nicole Connolly, chief financial officer for the Austin ISD. >> Good morning, my name is Sarah Kahn and I'm the director of budget and planning for Austin ISD. >> I'm leela fireside, I'm an assistant city attorney here in Austin. >> My name is joule Cowan, I'm the board secretary for Austin ISD board of trustees and I represent district 4. >> Good morning, Paul Saldana, vice president of the board. I represent district 6. I did want to say, too, if we continue to have -- this is great. If we have other meetings to let us know.

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I know other board members would like to be here but unfortunately we didn't post this meeting so trustee hinijosa will probably join us. We too are subject to open meetings act and this meeting is not posted for us so we can only have three trustees here today but I know the other trustees who serve on our board are certainly interested in this conversation. Thanks. >> I'm Kathie tovo, and I serve as mayor pro tem for the city council and I represent city council district 9 and serve on the committee of the joint committee of the district ask city. >> I'm Ann kitchen, from district 5, south Austin, and I serve on a lot of committees, but the regional -- perhaps the one that's most relevant here is the regional committee on affordability. We've been dealing with issues with the school board related to that. >> Mayor adler:steve Adler, also a city employee. >> I'm Elaine hart, I'm the interim city manager. >> I'm Brian [indiscernible], I work for councilmember Delia Garza. >> I'm [indiscernible] And I work for councilmember Renteria. >> Sorry, Marco [indiscernible], senior advisor to councilmember Houston. >> I can speak loud enough. Michael [indiscernible], councilmember troxclair's office. >> I'm Eric Nelson, a corporate budget manager in the city of Austin budget office.

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>> Sorry. Gina Hinojosa, aid trustee. >> All right. I do want to acknowledge Eric and Sarah from aid. They've been the chief number crunchers on this, so I will be leaning on them. If the questions get really into the numbers and calculations, they're gonna be our two best sources and in terms of the data that's been provided. And then leela fireside has been the city's chief attorney on this in regards to the legal parameters. >> Mr. Van eenoo, I wanted to acknowledge Amy Smith from councilmember pool's office is here too, just not at the table and John mauler from councilmember Casar's office. >> And Kim Craig from my office. You guys wave your hands back there. You're welcome to come up to the table if you'd like. >> Yes. Everybody is welcome. All right. So let me go through the first topic, kind of wanted to reset the table on this whole topic by going through a summary of the findings from our initial analysis that directed the city manager to report back to council on the exploration of a potential transfer of services and the associated tax rate swap. I am gonna ask Eric, as I start talking about this, I don't know if y'all have it, but I have copies of the initial analysis. There's a lot of good information in here that -- the statute that defines how a tax swap would work, discussion about how the whole school district, school financing mechanism works and the tax rate and the copper pennies and golden pennies and all that and the data analysis. >> Mayor Adler: Would you go ahead and hand those out? >> Yeah, we're gonna hand these out. I've got a copy. So that just has a lot more detail of what I'm gonna talk about. Essentially what the report says, when we talk about a tax swap what we're talking about

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is services the district currently provides that could be transferred over to the city as being the service provider and the thought is that the school district's tax rate would come down and the city's tax rate would go up. And in a tax swap scenario there are provisions in state law then vision such a

circumstance happening and what it allows us to do when we talk about a tax swap is the city can take on those services provided by another entity and be held harmless in regards to what tax rate we charge. So there's restrictions in regards to how high our tax rate can go, and essentially under a tax swap scenario, our tax rate could float up higher to pay for those additional services, thereby not impacting the city's ability to fund other services. A similar situation happened when the city transferred the operations of the hospital to central health. When that happened the city's rate came down and central health's tax rate went up. That's what I mean by a tax swap. In order to do a tax swap, the activity being transferred must fulfill a legitimate municipal purpose as opposed to a school district purpose, and so months ago we've had extensive conversations with the school district about the services they provide and which services would be eligible for a tax swap, which of those services actually fulfill legitimate municipal purpose. The other quirk is in order to do a tax swap, the transferring entity, in this case aisd, has to completely discontinue operating the activity. So in some cases we've been able to provide funding to aid to deliver services that fulfill a municipal and you were essentially just are contracting with the school district to provide this service that meets the definition of a municipal service. But when we do that, that's counting against our ability to generate revenue for other programs and so in a tax swap

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scenario or tax rate could float up to pay for the service without impacting our ability to fund other services and programs. But in order to do it, in order to do the tax swap, the school district has to stop the service and the city has to become the provider of the service. And then the third aspect is that the city can only be held harmless. This whole discussion I'm talking about, about how our tax rate floats up to pay for the service, we're only held harm that is the cost the transferring entity incurred in delivering the service. If it was \$5 million worth of services the school district paid for those services, we could transfer that over to the city, be held harmless relative to our tax rate for that \$5 million. The rub is if the city end up having to spend \$6 million on that service, we're only held harmless for the \$5 million, the additional \$1,000,000 would hit against our tax rate -- additional million dollars would hit against our tax rate. >> Kitchen: That means we can't grow a service. Is that right? For example, if there's parent support specialists, for example, and they're not -- if the aid is not doing that on all campuses, we couldn't take over that and expand it, it sounds like? And still be within the held harmless? We can do it but we'd be capped. >> That's right, that's right. >> Okay. >> Yes, sir? >> And I apologize. You're not even through with your presentation, but I think at some point when it's appropriate I think it's good for us to have a conversation of defining what activities or services are because under state mandate we are required by law to provide public education. Anything above and beyond that is technically outside of our realm. So I'd like to have a conversation about the definition of activities and services. >> I think we can definitely do that. We have a list coming up of what all the services are that we've been able to identify thus far and I think we can talk at that time about what the definition is. >> [Off mic]

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>> Mayor Adler: Comments, those definitions are gonna be real important as we work through this. And I want us to be as creative as we can but still stay within the law when we're looking at this. But what might be an expansion to some might be taking over a program to another, even if those programs are similar or related. >> Got you. >> Mayor Adler: So there are different ways to look at this and hopefully we'll get a better feel for those parameters. >> Kitchen: Okay. >> I wasn't planning on reading through all of these but we -- >> I will want to ask that there are structural differences in -- under law in terms of the effective and rollback calculations for taxing jurisdictions that are unique to school districts. While

cities and counties do have some limited flexibility under law to address the rollback rate, I think it's up to 8%, school districts don't have that flexibility without going to referendum to voters so ultimately we have to absorb inflationary costs or costs of provision of services over time for -- at a set level that was set back in 2016. So while you can accommodate expansion, there are sort of mechanisms in the taxation structure that allow to -- for some inflationary provisions, unlike school districts. >> And I would only add on to that that a lot of that dynamic that Nicole is talking about is dependent on what's happening with the property values. There are years where the city, like the last couple years, the city's rollback rate under state law is actually lower than the current rate. We actually have to lower our tax rate just to stay in compliance with the rollback rate and so when property values are growing very rapidly, the school districts actually get the benefit of being able to hold their tax rate at your current rate. You don't have to lower it. But when property values aren't growing very well --

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>> The school district does not get the benefit. The state gets the benefit. Thank you. Clarify that. [Laughter] >> Depends what your tax rate is, but I agree with that. So I'm laying out some programs here. These are programs that we worked through with the school district and were reviewed by our legal staff and were determined to fulfill a municipal purpose. They're largely categorized into public safety programs, social service programs and economic development programs, all things that would be common for any municipality to provide -- a municipality to provide. The first list I'm not gonna read them all but this first list are programs currently provided by the district under contract. And so these are kind of the easiest ones to deal with. They don't involve aid employees. They don't involve any sworn positions. They're just delivered by contract so it would be I think the lowest hurdle would be for the city to take on these services because there's not that human element involved. The bigger dollar amounts, though, are involved with these programs, where there is a human element involved. These are programs provided by aid staff. You can see the group two are all the civilian programs, total 144 positions, providing those services, and then group three was the campus police with 107 positions in that functional area. So that's kind of the universe of what we've been able to identify in working with aid, the universe of programs that we believe are eligible for a tax swap. Or even if we weren't to do a tax swap they'd be eligible for the city to pay for given they fulfill a municipal purpose. >> Kitchen: This is a placeholder because I don't want to take us down the rabbit trail or too much asides but at some point I want to talk about transportation which may actually -- I want to talk about transportation if aid wants to talk about transportation. >> And we have talked about transportation in the earlier working groups coming up with our initial report so I think

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we're prepared to do that. >> Kitchen: Okay. >> So the key assumption in our preliminary fiscal analysis we did, the key assumption that we made throughout that analysis is that any programs that were performed by aid staff that -- they would be outsourced to a third-party vendor prior to a tax swap at no additional cost. So that's just an assumption we made. So if there was a program like an afterschool program that's provided by aid staff, that afterschool program would be outsourced to a third-party vendor at no additional cost increase. Now, that third third-party vendor may take the aid employees, may not but the key from a fiscal standpoint is we could outsource that service for the same cost the district is doing it. City staff's rationale was we knew our labor costs were going to be significantly higher than aid's. We knew wages would be higher. At the time we didn't know exactly how much higher but we expected they would be higher. Retirement costs we knew, that our retirement contributions for civilians is 18% of wages. And the district is responsible for one half of 1 percent of

wages because the state kicks in a significant portion of the retirement contribution, so there's a huge additional cost in making these employees city employees related to retirement programs, workers' compensation costs are higher for the city, and health insurance, per employee health insurance contributions for the city are much higher than they are at the school district. We also felt that in making these employees city employees there was a lot of civil service and public safety labor negotiation issues. We have rules under civil service in regards to how we hire individuals so there would have to be some process put in place or exceptions made if we were gonna take these aid employees and make them city employees. There would be a number of civil service issues to work

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through and perhaps even more difficult would be the public safety negotiations that would have to incur. We start talking about consolidating campus police with the Austin police department we would be in a negotiation standpoint with the police officers association and so there's challenges there. We also are concerned about challenges in regards to facility space. We are very lacking on facility space currently in the city, and so we'd have to figure out that aspect of how do we handle the facility space needs for these people, as well as equipment needs. And I can tell you we still haven't looked at the equipment needs. When you start thinking about campus police becoming Austin police, if they use different equipment, different body cameras, different vehicles, different mobile data computers, different weapons and et cetera, all that equipment would have to be purchased and we're not taking that into account in the analysis at this point in time. Later on we do take into account the higher labor costs, but we have not yet taken into account, you know, all the changes in equipment needs. That would be a layer of analysis that I think would come subsequent if there's a desire to proceed. And then I think another issue is if the school financing system, which is very problematic, were ever corrected, I think it becomes much more difficult for those programs to resort back to being an aid delivered program, if there was a desire to do so, once they become city employees and they're city services, it's probably unlikely they would go back to being a aid-provided service. Not impossible but it felt to me it was probably unlikely as opposed to if these services were just being contracted out it's much easier for the district to say you know what? We want to take those services back under our wing. This was the result of it. And, again, this is the analysis we did about four or

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five months ago. The first thing we looked at was trying to find ways that the school district could get out of having to assess what are called the copper pennies and so just -- I know most of you know this but maybe I'll walk through it any how. I think there's really three layers to a school district's tax rate. The first layer is the first dollar of the tax rate, which is subject to recapture by the state. The second layer is what they refer to as the golden pennies, and that's up to 6 cents that are not subject to recapture, so a designate can assess a tax rate higher than their compressed rate of \$1, they can assess up to \$1.04, correct me if I'm wrong if I'm getting this wrong, Nicole, without voter approval and then \$1.06 requires voter approval. The school district is did D get voter approval to go to 1.07. Anything beyond are what's called copper pennies, again, subject to recapture at a significantly higher level than the compressed pennies are. And so I think that's important to understand because when we start looking at other local school districts, the other districts are all at 1.04 -- 1.04. The other districts aren't assessing the copper pennies, not having this recapture issue. In fact if we wanted to address the recapture issue with them through a tax swap, they would have to lower their tax rate down below \$1 before it even became sensible because they're not paying recapture on those extra four pennies so I think this whole issue of doing a tax swap and trying to avoid the most detrimental consequences of

recapture is really a situation unique to the school district, and that's why we've been working solely with them on this issue.

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>> Tovo: I'm really trying to not to interrupt your presentation but would you mind rerunning the last few pieces of that, about the other school districts? >> So think of it like as a layered cake. You've got this first 1 dollar, the compressed rate for any school district, doesn't have to be a dollar but for most it is a dollar and it is subject to the state's recapture formula. Some of that is recaptured and redistributed to property poorer districts. Beyond the dollar, the -- you can go another four pennies and all the districts in this area have done, that the extra four pennies and it's not subject to recapture. Any of that money they just get to keep, it's all the money stays locally so for us to do a tax swap in that situation it would -- a school district would be lowering their tax rate and the city would be increasing ours. It would all net to zero so it really doesn't save any money from going to the state. It doesn't help retain any more money locally. Now, past \$1.04. >> Mayor Adler: That's why they're called golden pennies. >> Yeah. You can go to \$1.06 and get two additional pennies. >> Those are silver pennies. >> Silver pennies. Aisd has voter approval to get thought silver pennies. Past that you can start assessing copper pennies and the copper pennies are very subject to recapture. You'll see in some of the numbers the 1.9 pennies, aid assesses 1.9 pennies are -- is it 1.9? >> Right. Our rate of recapture on those pennies are -- 60% is safe on the to the state so it increases about three to four percentage points every year so next year we'll probably be paying 63% on the copper pennies because the rate of recapture greatly exceeds any growth that's newt the state funding formula. Actually there's no growth in the state funding formula.

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>> So the piece about the other school districts that I was really want to go make sure I understand. So for the other school districts, they're not beyond -- they're not beyond the four pennies? And so for them to benefit from a tax swap scenario, as you said, they would have to actually lower their tax rate? >> You would have to get rid of the four pennies, swap four pennies worth of services and start going further below that to benefit them with the recapture rate. >> Most school districts would be penalized to go under the dollar by the state funding formula so that's why the state guarantees a minimum level of collection for school districts. >> It was also my understanding, though, that some of the other -- a good number of the other eight school districts that fall within the city of Austin are not currently -- they're not identified as property rich school districts anyway so they are not currently subject to recapture. I don't have that list with me right now but that's my understanding, some are but not all -- >> Because the dollar, right? We pay recapture on that first dollar, that's a substantial portion of our recapture so we're sending \$406 million to the state in recapture. The total revenue from the copper pennies is about \$18.5 million so we're talking about 2 cents. Most of that the recapture yield is from that dollar compressed rate. So eanes, lake Travis, central Texas Austin aids represent about a quarter of all the recapture payments. >> Tovo: We can get clarity on that but I think manor and some of the others that are not aid are not currently subject to recapture. >> That's correct. >> Mayor Adler: Les anybody be watching this on TV, this conversation we just had, one additional element, if this is pursued and we discuss it, that we opened up was the

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ability to equalize that equitably. So if we had a taxpayer that is in the manor input school district, while we may not be able to do a tax swap with manor in a way that makes financial sense, there's still things perhaps the city can do to equalize the equity so a taxpayer or a student that is in the city but not in aid is also accommodated. >> And I'd like to add that Round Rock is probably going to be paying recapture within a year or two years. I think next year actually they're scheduled. Just like Houston is going to be scheduled next year, Dallas in a few years. More and more school districts are scheduled to flow into the recapture. We'll be paying districts into the recapture system. >> There's a map, the last page of that report, not of the powerpoint, of the report, there's a map that shows aid -- or city of Austin boundaries overlaying the various school districts so you can see which other districts come into Austin's area. It's mostly aid but not totally. Let me go through some of these numbers and some of these numbers are gonna be different than what I'll show you later and different than what Nicole said because this was done using data from last year, but this was a scenario where we looked at what would happen if we were -- if aid were to eliminate its copper pennies and we were to transfer \$7.1 million of programs from aid to the city? And so 1.9 pennies is the third line on that shows aid tax rate impact. That's lowering the tax rate by 1.9 pennies. You can see at the time we did this analysis that was \$17.9 million of tax revenue that the district collected from that. The big rub is they only got to keep 7.1 million of it.

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The other 10.8 was transferred to the state vis-a-vis the recapture system to be redistributed to other districts. So in this scenario, aid would stop assessing the 1.9 pennies, the \$7.1 million that they got to keep locally, those services would be transferred and we didn't say which services. We just are doing this generically but some package of services total be \$7.1 million would be transferred to the city. That's where you can see in the second group of numbers. The city, given our tax base, which is larger than the district's would have to increase its tax rate by 0.66 pennies in order to generate that \$7.1 million. The other numbers I haven't talked about yet are the tax bill impact. So that taxpayer who lives in the district and lives within the city as a result of the 1.9 penny reduction in the tax rate by aid would save \$42.75 but the -- would pay \$15.53 more as a result of Austin increasing its tax rate. And so then we net those out on the bottom there. You can see the net tax bill impact to somebody who is a city of Austin taxpayer who lives within the district. They would save \$27.22 where people who live outside of the district would pay \$15.53 more. In aggregate, though, it's about 75/25, about 75% of our tax base is within aid's boundaries, 25% outside of aid's boundaries. The net benefit to the taxpayers in this scenario was that \$10.8 million, essentially the money that otherwise goes to the state, we could provide those same services using Austin's tax rate without having to pay the recapture. Now, this was just a scenario we ran. This doesn't do anything to actually help aid's budgetary, you know, troubles that they're having. This was all about giving the

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benefit back to the taxpayers. We ran a second scenario to look at how could we rework this so that the taxpayers were held harmless in aggregate but aid received the benefit of not having -- have those additional -- those local dollars recaptured? So in this scenario, it's the same situation, where aid would lower its tax rate by 1.9 pennies. That's \$17.97 million of less revenue, again, the bulk of that going to the state, but if we weren't charging the copper pennies then they wouldn't have to make that \$10.8 million transfer to the state. In this scenario, though, we were going to transfer \$17.9 million of programs from the district to the city. That's where you see that \$17.9 million. That's why you see down on the city now we would take on \$17.9 million of programs from the district. We'd have to increase our

tax rate by 1.6 pennies, 1.67 panes and you can see the net impact there would be the typical homeowner who lives within the city of Austin and aid -- I should say we define the typical homeowner as the median value homestead. So the typical homeowner who lives within aid would see a small savings of about \$3.50. Folks living outside of the district would pay \$39 more in aggregate, though, there would be no additional tax revenue collected but we would keep \$10.8 million more of it locally. And I do note here on the previous slide I noted as well that seniors are -- in our initial analysis, we identified seniors as being negatively impacted by this tax swap because really what you're doing is you're shifting the cost and the taxing burden from the district to the city. From a senior's perspective that taxing burden with aid,

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it's frozen. Once you hit 65 your tax bill is frozen so any of that taxing burden shifted to the city, those seniors would now be paying additional money. Seniors don't get any benefit when aid lowers their tax rate because almost all of them having been frozen for many years, they won't get a lower tax rate as a result of aid lowering its tax rate because they've been frozen but they would pay more when the city increases its tax rate. When I get to scenario four here we have taken a stab at how we might address the senior issue. This is all the initial results. So then council came back with a second resolution and asked us to actually recommend ways in which we might implement this transfer of services and asked us to do many of the same analyses that we had done in our initial analysis. Prior to doing that work myself and some of my staff met with Nicole and some of her staff and had a discussion about what we thought the parameters for that subsequent analysis should be, and one thing we heard from aid is they didn't think that the parameters that we initially worked with, where we would outsource all these aid services prior to doing a swap for all the reasons I laid out before, they didn't think it was workable, that trying to identify third-party vendors to deliver the services we're talking about wasn't practical, particularly for public safety, and that they also weren't supportive of outsourcing more than 200 aid staff positions and having those people lose their jobs and maybe hope to get those jobs with one of the third-party vendors, that a much more palatable solution from their perspective would be if all those aid staff providing those services could come over to the city, have jobs with the city and continue to provide their services but now as city

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employees. So that's scenarios three and four are looking at that. As I mentioned earlier, one of our rationales for the outsourcing is the city's cost structure is just higher than the school district's for labor cost. Sarah and H.R. Staff over at aid provided us a snapshot of a whole bunch of the civilian positions, and then we gave that to our H.R. Staff and they started trying to line up, okay, these civilian positions doing these duties with this level of education and this many years of experience required -- in our classification system, our pay scales, what would those civilians -- where would they be slotted within the city? They came up with about 8% on average wages would be 8% higher for civilians. I say here that city cost for civilian staff is estimated at 46% high center what's the difference between the 8% higher in wages and 46%? In addition to the 8% for wages we're paying 17.5% more on retirement. I don't have it as a percentage but our workers' comp costs also higher and in particular our health benefit contributions are significantly higher than what the district contributes for their employees. So if these employees were to come over to the city, become part of our retirement system, receive our medical benefits, the cost per employee, per dollar, is 46% higher. It's even more so for sworn staff, when you look at officers and sergeants and lieutenant, officers and sergeants and lieutenants and captains for Austin police department get paid significantly higher than the similar positions within the school

district. And then on top of that the health insurance cost still exists, the retirement costs are even higher, Austin police department's -- Austin police officers contribute 21% of their wages to the retirement system. Again-- I'm sorry, the city contributes that, again, as opposed to the half percent contributed by the school

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district. For sworn staff we're looking at 63% higher labor costs, bringing those folks over to the city. I mentioned this previously but I think it's an important point that we -- that's just the labor costs. The aspect of this we have not divide yet divide into is vehicles and equipment. We would have to get an actual transition team together of campus police and A.P.D. Staff, get a transition team together and determine what kind of vehicles do they use, what kind of vehicles does the Austin police department use? Are they just transferable? What kind of mobile data computers? What kind of weapons? What kind of vests, body cameras, all that would have to be worked. I would anticipated there would be significant additional costs associated with the equipment transition we wouldn't be captured under a tax swap system. We would have to find a way to pay for that. You have a question? >> Tovo: I do. I hope it's okay to jump in. >> Yes. >> Tovo: I know the tumblr system for city employees currently is at two tiers, depending on when city employees started. And I wonder -- I guess I would pose that question, whether that's an option to have aid staff, if it were aid staff come in at different benefit levels, particularly with regard to retirement? I'm not sure that that would be the policy directive to do so but would that be an option from your perspective? And then the same -- similar question with regard to police who would come over from the campus police. And I know there was considerable discussion about when the parks police were absorbed into the Austin police department. Is it possible to have, you know, two kinds of police officers within the city structure who may not be -- who may not receive exactly the same benefits or salary levels? That's kind of one question in two parts. Then my other one would be, when you're talking about the equipment and whatnot, would it -- are you talking about actually purchasing new vehicles and new equipment or

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would the city have the option of purchasing that equipment from the school district as part of this plan and utilize -- going ahead and using what is currently being used by those campus police? >> I think we'd certainly have the option of buying the equipment or aid would have the option of just saying you can have the equipment if you take over this function, and -- but I certainly couldn't commit to the police department saying that that Q is compatible with policing methods. Maybe more so on the cars but I don't know what kind of mobile data computers campus police use versus what our police use. I know they would need to have a single system though. In terms of body cameras or vehicle cameras. >> Tovo: Why would it need to be a single system? >> Well, I'm not the A.P.D. Expert. I'm anticipating they're gonna say they would want all of their officers running off of a single system. >> Actually, Ms. Conley can probably speak to that. We actually have to pay \$706,000 a year for your gator radio communication because you guys coordinate the emergency management so we're required to pay \$706,000 plus a year under your system. So I think we're using, to be compliant with what you guys require, as the organizers of the office of emergency management. So that's something that we're required to pay based on your request. >> The radio system would be compliant. >> I would think that there's a lot of -- there's a lot of complex things going on here so I think you're just giving us worst case scenario, which is certainly appropriate, which we would have to really sit down and work out the details about when would it be appropriate to have the same, when would it not? And we'd have to be thinking about long-term because we wouldn't want to set up two tier systems if it wasn't appropriate. >> I'm trying to articulate,

I think I'm giving you the best case scenario. We have pretty good data in terms of labor costs. We're assuming there would be no additional cost for the equipment.

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>> Kitchen: Oh, okay. I see what you're saying. You're just noting this. >> I'm noting we're assuming there's no additional costs related to vehicles and equipment. I suspect there will be but I don't have a way to quantify it. >> I understand. >> Mayor Adler: Did you answer the question, I didn't hear about the tiers on health care and what. >> Tovo: I agree over long-term that may not be the best but I sure don't want to get to a point where that differential in retirement costs -- differential are an impediment to moving forward if there are other options we can consider such as a tiered system. >> We currently have a 2-tiered system for civilian employees but there's only one level of payment that the city makes and employees, for ma matter, so all employees contribute 8%, city contributes 18%, regardless of what tier you're in. We could create a third tier and it's very possible that long-term that third tier benefit would help bring down with the contribution rates are needed to be. You know, but it takes a while so like when we created this second tier, the day we created it, 100% of our employees were still in the more expensive tier and nobody was in the cheaper tier. Now, you know, over time, over the years, it starts to switch. And so the actuarial benefit of doing a second tier isn't just this nice straight linear line. It's kind of more of a curve where you don't get much benefit initially but 10-15 years downstream your actuaries really pick up as more and more people come back of the second tier. But I wouldn't expect -- if we created a third tier, I wouldn't anticipate that the actuarially required contribution rate would come down any initially at all. You have to keep in mind that our funded status for civilian retirement plans in the 60% right now, amortization periods over 33 years, so I think it's very unlikely that even a third tier would have a material -- an immediate material difference in what the contribution rates need to be in order to keep the funds

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solvent. >> Kitchen: And my question relate to the health benefits. I'd be very reluctant to create a second tier for health benefits. It sounds like that may also apply because we're not talking about a huge number of employees, to what you just said with regard to retirement. But regardless of that, I would be very reluctant to set up a -- I mean, what we've been working on with the city of Austin over the last year and a half or so is making sure that all our employees are treated the same or comparable with regard to health benefits. So that would be something I'd be very concerned about. And but, you know, I think it's important for us to cost out all these scenarios and have this discussion. But I signal to you that second tier on health benefits in particular I do not think would be a good policy for us. >> Tovo: To clarify, that's one reason why I said it -- it's important to understand I think what the different options were. I wasn't certainly recommending one or the other and I did call out retirement specifically. But I think it's important, again, if these are gonna be viewed as potential impediments we understand whether there are options at least in the short-term realm. >> Kitchen: I agree we need to understand them. The other thing, we have to think about the long-term effect. Capital metro for example, had a 2-tiered system when they made changes with regard to retirement and we're now facing for various reasons, because of various equity types of reasons and the differences it creates in the workforce, bringing those up. So I think we just have to be aware of that. >> Mayor Adler: I think that's a good thing too. But for purposes of this meeting, I'd want to get as many ideas out on the table as we possibly can. >> Kitchen: Sure, absolutely. >> Mayor Adler: Because who knows what that might lead to or jog. >> I think you also asked about the possibility of having two tiers of the police force, and leela can probably speak to this better than I

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can. We did discuss that option but I think it's not allowed. You're only allowed to have one city police force. >> That's correct. And there are various legal issues both with retirement, health benefits, the two tiers of public safety employees, and now that we have municipal civil service there may also be an issue with that regard, with having different tiers of employees that are not the sworn. So all of those things are legal issues on which I'm sure Lee Crawford could talk to you if we moved down the road more on that in an executive session. >> Because we did pose the issue, having served in other school districts, where police functions were transferred to the city, New York being one of them. And they created a secondary system under the police department. We did ask the question, and I think there was some legal and collective bargaining issues that are unique to Austin that would have to be overcome. So I'm presuming that that was shared with the council. >> I'm gonna go on to some numbers and if you thought the last slides of numbers were a lot these ones get even more busy. Hopefully you can read that better on your handout than you can on the screen. But that was us trying to squeeze it in. So this is a scenario where we would transfer all of those eligible services, everything that I talked about previously we would transfer them all from the school district to the city. The reason we wanted to look at that scenario is another thing we heard from aid is they felt that it was necessary for us to kind of go big on this, that if we were going to go do something like this we would want to see a large change that had a good, positive impact on the school

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district's financial situation. That's not the bottom line of this result, but I'm saying that's why we looked at a scenario where we transferred everything, if we assume we get public safety worked out, assume we get all the civilian issues worked out, all the contracts, everything would transfer over to the city. So in this does he, again, the aid would lower its tax rate by the 1.9 copper pennies. The number is a little higher now because this is a year later, \$18.7 million of revenue is generated by those copper pennies, of which aid only gets to keep 7.4 million. The rest all goes to the state. They would transfer to us the \$17.4 million of services. So from aid's perspective, by getting rid of their copper pennies, they lose \$7.4 million of revenue, but they're giving up \$17.4 million of services. And so aid would be \$9.9 million to the good. So so far that's what we're trying to accomplish, trying to find ways to address some of aid's funding issues. The typical homeowner living in a median valued home would save \$48.21 and, again, a senior homeowner would not save anything. As a result of that lowered tax rate. Now, you look over at the city of Austin budget impact, you see that the \$17.4 million of services that was transferred from the district to the city, we're estimating that those costs, just the labor cost side of it,, again, not the equipment or supplies or any of those issues but just the labor costs, increases that I talked about earlier, the cost of those services in the city of Austin would grow to \$27.6 million. I go back to the beginning of our meeting when we talked about the only thing the city can be held harmless on in a tax swap is the cost incurred by the district in the prior year. So the delta there, that additional \$10.2 million we would have to find some way, somehow to address within our budget. And that would either be

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cutting other services or not addressing other council priorities or possibly increasing the tax rate beyond the rollback rate, which the city has the authority to do, but some way, some how, we would have to deal with that \$10.2 million of additional cost. It can't be addressed through a tax swap resetting of our tax rate. In order to generate the additional revenue that we would need to cover those costs, we

would have a 2.2 penny increase in our tax rate, which would cost a typical homeowner \$58.14. Seniors, which typically live in lower valued homes, it would cost them on average \$37.73. You can see the net impact across the board here is in this scenario, taxpayers would actually pay \$8.9 million more, and all categories of taxpayers would be paying more, whether you live in the district, whether you live outside of the district, if you're a senior, if you're not a senior. Everybody pays more. And it's being driven by the fact that our costs just go up so much. So that's not a very palatable scenario, but it is the first one we looked at where we said, hey, let's see if we can transfer all of these and have them all become city employees and what does it look like? It doesn't look very good. The final scenario we looked at, we started brainstorming, is there something we can do to try to get this thing to fit, where the taxpayers are coming out ahead, aid is coming out a little bit ahead, and the city isn't harmed -- is held harmless. I don't know that we can get there, but this is the best. These are even smaller numbers but I'm gonna try and walk you through this fairly slowly and methodically. In this scenario what we said is, let's not look at the public safety services. We need to start -- we needed to get rid of -- that was the one that was the most additional expenses. We're estimating the labor costs there as being 63% higher. What if we didn't have that one? In this question we said let's just look at the contracts and

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programs run by civilian staff. The rest of it is kind of the same. Aid lowers its tax rate by 1.9 copper pennies that results in \$18.7 million less revenue. But most of that revenue goes to the state any how. It results in \$7.4 million less local revenue that they would re-tain. But, they would transfer \$8.4 million of programs to the city so they come out \$1 million to the good in that whole transaction. They are better off as a result of it. On the city side, the \$8.4 million of programs that were transferred those costs escalate to \$13 million. We're \$4.6 million that we would have to find a way to deal with. We would not be held harmless for that additional cost. Then we added another line item because city council wanted to find some way to hold seniors harmless. We didn't want seniors to be negatively impacted by this transaction. Under this scenario, vis-a-vis, the transaction. Seniors would not pay any more as a result of that. There could be winners and losers depending upon your home. Those seniors in higher dollar value homes would pay more than seniors living in less valuable homes would pay no more or maybe even pay less with the \$6,000 exemption. But the best we could do under state law was to try to net it to zero and that would take a 6,000 exemption which would result in \$970,000 less revenue to the city. From the city's perspective, as a result of this type of transaction, revenue and additional expenses combined we would have \$5.6 million that

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somehow, some way, we would have to figure out, either cutting other services, not funding other council priorities or perhaps increase the tax break beyond the rollback threshold or a combination of those three. In terms of individual impacts, the home owner living within aid would save 21. but pay 27 point \$26 more for a net savings of 20.75. If you live outside of the district you're not getting any saving, you're paying the city 20.76 more. Then the senior, the median senior would save 9.33 here but again this is the dynamic of seniors and more valuable homes wouldn't see that 9.33 of savings. They would pay more an the final number just shows that the aggregate, all of the seniors combined. We would estimate all seniors combined would pay \$36,000 less. Essentially zero. And \$6,000 exemption gets you to that amount. I'm sorry, I'm not knolling something basic that I missed. Why is it under this scenario you wouldn't be able to do a clean swap where the city won't have to -- where you could -- would you be able to take over the services here without going to the tax payer? Is there something I'm missing that's different than scenario one? There's two things going on. 1 is the \$8.4 million coming from the

school district to the city. We increase the tax rate to pay 8.4 million. The district would lower the tax rate. On one aspect, we increase to pay for additional services then we have to increase the tax rate

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beyond that. Because the cost of the service being delivered by the city will be higher than what it was for the school district. And then the final component, the final twist I've added to the analysis, council asked us to say is there a way that we could not negatively impact the seniors, so I said we could accomplish that, a higher city tax rate results in seniors paying more. >> So you're not raising the tax rate. Why aren't you raising your tax rate without going to the voter -- >> We are. >> You are, under the scenario? 1.07 cents. >> Then why are you out 4.599? >> It's the difference between 8 point 4 million and 13 million that it cost them to provide the services. >> Oh, I see because the difference in cost and they can only transfer the actual expenses that we incurred so they have to absorb the difference. If you can recap this, contractual services would be transfer. Civilian programs would be transferred. School district would be \$1 million to the good. Taxpayers in aggregate would be 5.7 million to the good. Seniors in aggregate would be harmed by this transaction though there would be individual winners and losers, a taxpayer within the district would save 20 bucks per year. Still have the dilemma. Taxpayers who live in other districts will pay more. \$27 a year. >> The city has to find a way to wrestle with the \$5.6 million of additional expenses and revenue loss from the senior extension increase. That was about the best scenario that we would come up with that seemed the most palatable to all parties concerned and it

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certainly is not perfect. >> I wanted to take a step back from all of these various scenarios and go back to the original question I asked, and that was coming up with a definition. Or make sure we're all on the activities, I'll use the support specialists, so if you took the snapshot, that we do, in less than a six-month time frame, they work over 15,000 hours of services per family. The majority of hours spent were assisting aid families navigate the city's process to find out what program and services that are offered by the city. That's why we go back to the thing, by state law we're mandated to provide public education to students. We are not provide required to provide social service many programs and those type of things. I'm not trying to create an adversarial situation. But I hope we're all on the same page. I think my colleague really said this best. Because these social services programs, activities are occurring on aid campuses, the assumption is this was our responsibility to begin with. And that is not the case. That is not what state law requires. I think it's really important for us to get all on the same page on defining that, because I really do think that would clear up some things. >> I will say that's one of the programs on the list. I don't want to oversimplify but

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I will. Social service type program. Economic development program, public safety program, those are the types of programs that will be done by the city. I don't want to say absolutely. But we have to look at each specifically. Each we identified are those type of programs. >> I said that because in the various scenarios we talk about programs transferred to the city, I think some would argue those were originally intended to be programs and activities of the city to begin with. Somehow or another aid took on some of those responsibilities. That's the point I was trying to make. Yes, Jean? >> I'm not clear, again, why it is that let me make sure I'm clear of the scenarios, scenario 3 doesn't have law enforcement. >> 3 did, not 4. >> Who would be the city employees under this scenario? Parent support specialists? >> 144

civilian positions. I think there are -- at least the quantities are listed in that table. The graduate drop-out specialist, 12. And aggregate -- >> I see. >> I was not aware that there had been a conclusion made by the district that it would not be feasible or desirable to move those groups of employees into a non-profit or non-profit or public provider. Is that the position of the administration? >> No, we couldn't find a practical option. We weren't able to identify any

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provider. Flue the course of this dialogue that would indicate they would be able to absorb those positions. The city did pose a question whether or not we would want to go forward with an rfp to see whether or not we could outsource these positions in anticipation that we month move forward with a swap but we didn't necessarily want to move forward with that procedure unless there is some certainty around is that because we would need to outsource them prior to tax swap? >> If they were outsourced prior to the tax swap the city would take over the contracts, right? Then we don't have the cost escalation issue. >> But we would not want to outsource them prior to the tax swap. Could they be said employees, could though become employees of Austin voices or some other non-profit? Could it work that way? >> I think that's possible. That's something the district would want to negotiate. You would include provisions that you need to take these district employee and have them become employees of that organization. Once that's done, it's the city swapping a contractor service that the district normally - the contracts are a lot easier financially and otherwise. >> Okay. And because -- while -- I know that we all want to make sure that these employees are -- their rights are secured or that they don't end up in a worse position than they are currently, specifically when it comes to our parent support specialists. Their jobs are so tenuous right now, that I -- I wonder whether they wouldn't appreciate having some security, some -- of a full-time job, even under a

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non-profit, as opposed to not knowing year to year whether that position is even going to exist, and so, well, I'm not sure how much my opinion counts. I only have a month left in the district, but I would be supportive of exploring at least having those employees become part of a non-profit. Austin voices who does our community schools and our family resource centers comes to mind as well as the Austin project, another good non-profit that we have another relationship with that's even been discussed potentially that education Austin could -- I don't know how any of these groups would feel about this, let me just say, but potentially take over those services. Originally the parent support specialist position was supposed to be like an organizer in the schools, originally Austin interfaith was very involved in support of the creation of that program. I've always been challenged by the fact that they currently answer to the principal at the campus, so it's harder for them boo-to-be independent advocate voices for parents because sometimes those interests are -- sometimes they are often we can work together. But it might even function as a -- better if they were not within aid. So, I hope that we don't preclude evaluating that possible option, if it makes it more likely that we can make this happen. >> I would concur, you know, because the other thing that it could actually do is help coordinate better, because we have so much fragmentation going on in terms of social services in the community right now, so putting -- you know, if there was a non-profit that's -- and

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there are non-profits that are already doing a lot of social service in the community, so, adding to that kind of scenario could actually improve coordination and social services across the community and

address some of the issues you just raised so that might be a good solution. >> Mayor pro tem. >> Could the employees be outsourced to local government corporation? >> I don't know that that's something that we've explored, and so without further research, I can't answer that. I do know one of the issues that we're facing, to the extent parent support specialist or any other folks are providing that connection to the city services, then it's easier to make the argument that that's a city function. To the extent that they are advocating for the students within the schools, that becomes a little more challenging, so, a lot of these things are very fact-specific and you have to look at the programs, and what they are doing, kind of program by program. And do our best to make sure that we can express to the city taxpayers what the city benefit is. And there are some cases and some attorney general opinions that look at that kind of thing, so we also have to work within those guidance documents as well. >> And I know that the school district has received some legal opinions from its attorneys that help kind of evaluate that. >> That's -- and I think -- obviously something we should pick up in the executive session. There's are lots of services that the city provides to youth all over this city, in lots of different places, and at a really high level. It's another youth program to me. But let's not have that conversation here.

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Let's have that conversation -- pray yore pro tem? Toev. >> I would be interested in thinking about whether the local government corporation structure has a role within this. >> I'm sorry, Paul? >> One other thing I wanted to put out there, just -- are there any current needs of the city that are not being met that perhaps the school district then could take on that responsibility or offer. And one thing that comes to mind, is I hear in our districts which overlap with P council member kitchen and Garza is the need for park member parks. Obviously, aihd has a lot of land through our schools. I guess quantifying that from a dollar perspective. We intend with the city that the property can be used as a community park which then takes it off of your lap but still meets community purpose. I think there's a way to quantify that from a dollar perspective. If you already have within the P future plans or current plans, there's a need for certain park S rather than spending those dollars that we could receive credit for that or something to that effect. >> I think that's a good idea, too. Mayor pro tem? >> I agree. They did examine some areas. The performing arts facility. Whether that's another joint use possibility that could be quantified for the city or the

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school district? I loss my list. And also the function -- and this is really a question for the attorneys, the health care function within the school system, if that is something. Probably not. Anyway, those are just some ideas I threw out. >> And we save that conversation, too, I would like to follow up on that and housing would be added to that. >> The health care, the nurses, that is one thing we do contract with. So -- >> We talked about health, transportation, utilities. I had an exhaustive list that Leila quickly reduced, so there were some legal limitations. >> There are. >> Yes. There are some -- there are a plethora of legal issues with a number of those ideas, and to the extent that that needs to be discussed later, I'm happy to do that. >> That will be great. Let's go ahead and do that. >> I have a little different question. Just -- we talked earlier about -- for this to really be useful, it needs to really help aid. So, can -- is -- without putting an exact number on it. Is there an order of magnitude to where this -- you know, for all of the -- what this takes, is there an order of magnitude for -- I guess it's that aid uncommitted budget that we're trying to get to. It strikes me that 1 million is pretty low and probably not something that's really very impactful. Class other scenarios have looked at, you know, eight or nine. Do you -- in you all's

mind from aid's perspective, is there a target, or are we just trying to see -- or is there a threshold below which it really doesn't work? I'm trying to get an idea.

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What are we shooting for? >> I was hopeful that we would at least get some relief of at least, you know, \$4 million to \$5 million at a minimum to provide some relief, 5 million provides 1% increase of salary for our teachers which is typically, you know, we don't get funded for inflationary costs under the state funding formula. The costs of health care are going up every year and school districts are expected to absorb it. Actually our recapture liability is about 26 million above what we anticipate collecting in new revenue for property taxes. So it automatically puts pressures on our budget, so we -- so, facing sort of the insurmountable task of balancing a budget when you don't really have any new revenue and you are already at a deficit condition when you look at recapture liability, I was hoping to at least get 1% to be able to cover a portion of our health care costs for employees for next year. And then also from a state perspective, in order to sort of -- I mean, I think, because we're Austin, we always always have the visibility of the legislature. We actually testified to the recapture continue that the house appropriation and joint appropriation and education committee a few weeks ago, and I think that this has to be something sizeable that benefits not only Austin aid. But something we can give to taxpayers. I'm willing to split the baby but at least hoping to get 1% out of the yield so we can find some kind of financial relief. But because they're looking -- we want to make it substantial enough to be a benefit to the district and tax payers, because it could result in some adverse attention at the state level.

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>> And to that point, we have come up with a new way to fund our teachers. Ppft stands for? >> Professional pathways for teachers. >> Professional pathways for teachers that is, over the next three years, expected to cost us more and a new way to pay teachers as professionals like they are. I know if that can be linked, I know the board has identified teacher salaries as a priority especially since we have the lowest paid teachers than any in the state and second lowest in comparison with surrounding districts, so, perhaps that kind of connection -- but I don't know how much that overall cost is, what we're looking for to fund that. I don't know if miss molina knows that off the top of her head. It's fairly substantial. Over the course of the years we're anticipating 12 million. Just meeting with hr yesterday. When we look at bye lingual teacher stipends. It's different cull to recruit for bilingual students. We have a growing population. Hours are half of what others offer. Our system stipends are \$25. When you address certain areas of need, like bye lingual and special education teachers and specialty, it starts to grow, so, obviously, we're not going to be able to satisfy all of our needs through this swap in pennies. I was hoping to go as far as possible. Taxpayers need a break. Taxpayers are shouldering much of the burden.

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The state is reducing its liability. The t.a.'s budget proposal includes 2 point \$1 billion P reduction in their budget as a result of basically increases being fueled by property taxes. So, as the state reduces its burden, property taxpayers are paying more. So, I was hopeful we could sort of split the results but certainly, you know, four, five million would certainly go a ways towards at least absorbing some of our health care increases for teachers. >> I want to touch real fast, too, on something that's come up now twice and I see is going to come up again on our final conclusions when we run through the list, it relates to something that Paul said earlier. When we were originally laying this out to take a look at, we said

certain parameters that we were trying to hit from a policy standpoint. And one of the first ones was we wanted to make sure that we weren't doing anything that was either violative of law or intended to circumvent law. And that was real important and it's real important. I think as you go up to the legislature and talk about this, that was one of the very first things, because we don't want to violate even the spirit of the law. But, as Paul points out, it's very clear that the independent school district's obligation is to pay for education. And to that degree, the state has a system associated with sharing resources and equalizing education resources. What we have is we have some non-education spending. Where it can be characterized that way. It's not too dissimilar to some of the municipal spending we already do in support of residents of our community that has now gotten caught up in the education equalization. So, part of what was intended

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here was to disaggregate that, and to see if there was a way for us to in fact more accurately follow the intent and spirit of the law to equalize education spending, but there is no state law about equalizing social service spending, and at least at this point, and there's something that feels almost violative of what the state is doing and allowing those social service expenses to be caught up in that system. So, part of our original goal was to say, is there a way for us to disaggregate that, so that the education spending is being treated the way our state laws require education be spending but not have social service spending. So, and I recognize that this is a new thing and will be part of a conversation. Part of the reason why we took this conversation off the table several months ago, was so that our legislative delegation would have the opportunity to talk to their colleagues, your future colleagues, hopefully at the legislature, just to make sure that everybody understood that we were not intending anything to do that would be sir come developmenting even the spirit of law, but trying to in part provide our tax payer's relief by making sure that we were corresponding more with law. I felt the need to say it because it's come up twice and other people might be looking at this or pulling out clips from this and I want to make sure that we're real clear as to what the intent always has been. >> I appreciate you doing that, mayor. I am very proud of our community

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of our city leadership for looking at ways to to better follow the spirit of education finance equalization, legislation. I think this is a responsible way to go about it. Interesting how different -- what we're contemplating doing, is from what Houston city leadership is advocating, because Houston will be falling in to recapture this year, so they will have an election in November about whether or not to -- which option to choose and whether -- and this is the option on the table, this is the way that most chapter 41 school districts contribute into recapture but their leadership is urging a no vote. Their mayor and many leaders in Houston are urging a no vote on this, so, if they vote down this method of complying with their chapter 41 status, then the alternative is for tea to detach property from within the city of Houston and they begin with the highest valued property and so presumably, down town property and they would detach can and give it to property-poor school district. So you will have, if this happens, a situation where there is, in downtown Houston, a building that has a much different property tax impact than one across the street and what will that do to their local economy, not to mention how that affects then their bonding, because then they lose that capacity. That is not included in the tax base for bonding purposes which is a different pool of money that school districts utilize for their facilities, so it will

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increase the tax burden that property taxpayers in Houston have to pay to cover their bonding obligations. So, some have questioned that approach. I think they are just desperate. By the way, their liability under recapture is only about, what, a fourth of what ours currently is, but they are terrified about it. And so that is -- has been their approach so far. So we'll see what happens. >> Just to add context to that. The Austin community is a generous community. I haven't spoken to one Austin tax payer to equalize what we have across the state, to access education and meet state standards which are toughening every year under new accountability rules. But the problem with the current system is that because the state benefits from immediate changes in market, in the market, and under the school finance structure, school districts are left with structures that are outdated over 30 years old. They have not been meaningfully adjusted to account for the cost of professional services that students need today. Some of the most you have ever enable students, Austin aisd, two thirds of the families cover under federal standards under poverty and we cannot serve them under the kind of financial system we're operating under. You have a district like Houston, poverty and Dallas, that's 88% poverty going into a system of equalization, where they are considered property wealthy, we know it doesn't translate into wealthy families and students, you know the system needs a meaningful look. It needs a fix. We all know it's undeniably broken. So the state's overreliance on recapture, on certain taxing

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communities, I think is the issue, because it's the state's duty to fund public education, not certain tax payers, so I think it necessitates some creativity if the state is not going to take up this in a meaningful way. Austin had its election in may 2000. The year substitute to that election is \$29 million. No one anticipate the recapture to the balloon and kind of liability that we're facing next year of \$533 million, over half a billion dollars. Would would not be able to safely pass an election today facing a bill of \$533 million. When we had our election, it was a totally different climate and we all agree we wanted to pay our fair share so every student can learn adequately across the state. I think in a state where they are reducing its budget as a result of new capture, it's succeeding lottery collections and it's actually fueling and funding public school finance, so, I think that is the issue that the state has to contend with. If not, this session, the next legislative session certainly. >> As Ed takes us home on the key issues to be resolved, that's a real strong point when I was working the legislature in 1977. We change weights and measures, they were updated then having been updated in 1933. It's not right that you're still dealing with the same measures as '97 you were trying to change. You want to take us home with the issue to be resolved? >> I do. There were two things. A number of issues that our city manager ought to identify when we did the initial analysis. He supplied a memo to the

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council where he expressed a number of issues with the tax and council asked to explore those and see if there's a remedy for any issue. The other thing is talk about the concept of a decision tree which we may not have time to get through. Eric will pass out the materials and I'll go through the slides. We talked about some issues and have identified issues. Others we have not. Concept that city tax payers who live outside of aid boundaries under any version of tax swaps will pay more. We brain stormed it. We brain stormed it with aid staff. We have not been able to think of a remedy for that. Senior, likewise -- >> Wouldn't there be the kind of things, if we knew what the increased tax burden was for someone outside of the city. Couldn't you adjust or reach some measure of equity by separate appropriation of supporting programs in those schools or those areas that would be social service, not education, that would be spending in those areas because they are assuming a tax burden that is greater? Couldn't we do something like that? >> We talked about those. It becomes a bit -- where you're starting to look at

having to provide additional funding to those districts and in order for the city to get additional funding we have to increase tax rate yet even further and compressed against a rollback tax rate, hard to envision where those additional appropriations come from. Then of course those districts -- we would be giving the funding to the district and not sure where they go about saying the benefit of the funding the city is giving to us, only accrue to Zens of Austin go to our district. The school district serves a little bit of people in Austin and a whole bum of people in pflugerville.

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If we give pflugerville more money, I don't think they could segregate -- >> I think you could equalize by the number of students or Austin taxpayers in that district, you wouldn't necessarily fund an entire program for a district that only had four tax payers and four students but I think there are options, that if you looked at those, it would be helpful to see those as well. So that we could at least see them to think about them or discuss them. >> Right. You can go on to the next one. >> The senior, at least in the aggregate. We come up with a calculation, at least for one of the scenarios, but we could increase the senior excel shun to hold them harmless in any transaction we came up with. But we can't get around the fact there would be individual winners and losers given how the state law allows senior exemption to be implemented. The issues related to civil service, labor negotiations, impact on aid employees, particularly those near retirement, you can envision -- even though city wages higher, you envision a situation where an employee is three, four years away from retirement. Maybe has 20 years in trs doesn't want isn't keen on switching over to a third-party vendor or the city. We have not been able to identify remedies for those issues. They exist. There's civil service issues that we have to address and labor issues, labor negotiations would have to occur as well. Not saying there is not remedies but we have to go through those. >> One of the advantages laying out an issue like this, now the community can see it, so if there are creative minds in the community, that might be able to come up with a remedy you weren't able to identify, this would be a call for that. >> And for this group. >> The higher city labor costs,

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you know, it is what it is. Our labor costs are going to be higher. We demonstrated there are still scenarios where taxpayers can come out ahead or school district could come out ahead. The detrimental impacts of recapture are so significant even with the higher labor costs there could still be a benefit. What we can avoid is the fact, number six here is what we can avoid, is that we're not held harmless. The city will not be held harmless for the additional costs. It will have to hit against our ability to fund other programs or possibly require a tax rate beyond the rollback rate. That's basically five and six. Looks like a got a repeat in terms of numbering, but do six again. There was a concern about increasing the complexity of service delivery, I think that depends how it's structured but these programs that are -- as has been mentioned these programs are delivered on school campuses and in many cases are administered by school principals, are now programs that are controlled by and run by city staff. You may lack expertise in the program areas. We don't -- we don't have a remedy for that it was just a statement of fact that the city doesn't have expertise in some of these areas. >> That would be addressed, of course, consistent with what Gina said, if there were particular functions, something that could be outsourced along those lines, then that would be an issue, that would resolve. Okay. Just in regards to the school financing -- >> Can you modify your presentation and take out number 7? I don't see that as an issue. Actually, the funds are transferred to the state's general fund and the actual state budget, there's a proposal to cut a \$2.1 billion as a

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result of the projected increase in property taxes. So, I think this would be immaterial to say it would have a detrimental effect. >> That's part of number 7 that we get to. Commune engagement and public edded indication. Because to Nicole's point, the money that's collected from Austin tax payers and I'll remind everybody, the next three subsequent years it will be over 2.6 billion of Austin tax money going to the state of Texas to balance their general fund. It will not fund public education. That is a myth and misinformation we need to clarify which means by 2019 half of every dollar we collect will go to the state under recapture. >> So, this is a concern raised by the city manager, so I'm laying it out there. I have changed the wording. Because I know there was sensitivity to the initial wording of this concern. >> And I think that's true. And again, I think the manager's wording, addressed a second ago in the earlier statement that I made, and to the degree that we use the language, that might not be accurate or might convey a meaning that's different than the one we want to intend, it becomes very problematic. The words that the manager used before that were, I think clearly incorrect, ended up being repeated, and editorial and in the newspaper. And I think that caused -- caused harm and that characterization was clearly incorrect. So, I think we have to be careful about the words that we use on something like this, because it has a far outside of us sitting at this table. >> Some of the wording that I used earlier, didn't seem to raise anybody's eyebrows. Is as a result of doing this tax

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swap. I think in one of the scenarios there was 10.8 million dollar less revenue sent to the state and retained locally. That's all I was trying to convey in number 7, less transferred to the state. More retained locally. I think that's what the city manager was trying to convey in his initial wording. As a result of that dynamic, there could be legislative action as a result. >> Right. But I think there's a big difference between saying there would be less revenue going to the state and saying that, for example, there was an attempt to circumvent. That's clearly not the case. It's different from saying the objective fact there's less money going to the state than to say there's a detrimental impact on the recapture system. The objective fact is there would be less money going to the state and there would be less money going to the state because right now the state is recapturing non-education money which it really doesn't intend to do. We could say that, if we wanted to say that. Or we could just say there's less money going to the state. >> And then the final concern was we have not yet done any community engagement on this, and given that these programs involve hundreds of aid employees, and will affect, you know, many hundreds of aid students and parents, I think the city manager felt there needed to be some community engagement if we're going to pursue this in earnest. So -- and I won't go through it all. The other thing I passed out to you was this decision tree we came up with where we were trying to lay out, you know, a bunch of decisions that have to be made in regards to what would aid do in regards to the tax rate. All of the analysis assumes if we do the transfer services aid will lower the tax rate. That's a decision that needs to be made.

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The whole decision about outsourcing, we talked a lot about that. That's a decision that needs to be made. What remedies exist for seniors? We talked about that a lot. So, you know, we talked about a lot of those and that kind of got us today. We got to enough where we felt there's enough to bring this group together and say, here's what we've been thinking about. Before, you know, as we close this, I would love to hear and I think Nicole would like to hear from this group what are the next step what do we need to do next. We looked at scenarios that seem pretty valuable that involve outsourcing. We

looked at scenarios that don't seem valuable and helpful involving bringing employees over to the city of Austin. However we proceed, at some point in time we need to do public engagement. We want to have a public engagement team formulated if we really are going to consolidate the police officers, you need to have consolidation involving labor negotiations and representatives from both sides. Regarding retirement issue, we want something similar from a civilian employee transition team. We need to do outreach to other school districts to talk to them about this. What the mayor was talking about. Would there be other things that the city could do for other districts that would help maybe soften the impact to those non-district tax payers. So there's a lot of additional work. I think that additional work depends a little bit upon, to me, the easier work is the work we've done, the financial analysis and now that you've seen the financial analysis, does it make sense for us to proceed in a more earnest manner by creating some of these teams, and to me, the one hurdle that still exists out there is this whole issue of outsourcing. We heard outsourcing was a good idea.

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I am hearing maybe it is a good idea. From a financial perspective it's the way to go if you want to make this work in a way that's financially beneficial to the district and the tax payers and doesn't create big negative financial impacts to the city. Outsourcing at no additional cost is the way to go and that opens up other hurdles and challenges. So I would seek any input we could from this esteemed group. I will say at the end of this decision tree thing that I passed out, there are some other things to think about. I asked if that -- at the bottom, if all of these other hurdles prove to be insurmountable. Is a tax swap just for these contracted services? Just services that are currently, we're contracting out for. We could swap those services and that would save our taxpayers some money. It doesn't help the district out but would help the tax payers out. There may also be -- a lot of issues we bring up in regards to transitioning employees, they're creative because we're trying to do a tax swap. When they fund support specialist like last year and this year. It doesn't creative us. We could provide funding for districts that fulfill a municipal purpose and we could do more than that. The coupe sill could decide over the three, four years we want to increase funding from appropriate programs from 5 or \$6 million. We transition from the same way we're transitioning to invest more on health and human services. We could over time transition to investing more in school district services and that avoids a lot of the challenges that I've talked about for the last hour and a half. It avoids almost all of them, really. >> So -- >> Council member kitchen, I want to add a post script to what I said before. This work has been really

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helpful. I appreciate a lot of time and effort in this. I think you gave us us a lot of things to think about. I think this would now end up with conversations that might go back and forth between some of the folks that are sitting here but this is very valuable and very good work so I want to thank you and the staff. >> Yes. I want to thank you also. It's very helpful. I think that -- I suspect it's not too much more work for you to run one more scenario. Hopefully not. I'm intrigued by the scenario where, I think it's related to several of these scenarios, but I want to see if we P outsource -- if we make the assumption outsourcing, what does that look like? So, I -- I'll send you an e-mail about it. If I'm correct and it's not too much work for, I'll create another scenario I would like to see. To me, from the big picture, the advantage of the swap is what it could potentially do in sorts of giving us dollars that doesn't count against our rollback. So that's potentially helpful and then of course we talked about the benefits to aid. So, I still want to see some more scenarios, so if it's all right with you, I'll send an e-mail. >> We can. I think scenarios one and two were from the initial report, assumed outsourcing but we could revise those to reflect current numbers and build in the senior exemption amount. But that won't take long. Because we possibly

already built them. >> Okay. Thank you. >> That would be helpful. Mayor pro tem and Paul? >> Tovo: I'm interesting in seeing scenario three with outsourcing and I don't know if it's as simple as saying there's an additional \$10 million available where we do three, because that's the differential and increase in the programs. Again I didn't know if there was

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a one-to-one relationship there if the costs increase with the transfer of services, if you could assume almost an additional 10 million out of that one. And I -- and again, I'm going to preface this by saying this would not be in line with the policy direction you've received from council, but in an effort to can have all of the option in front of us in terms of the numbers. I would be interested in seeing scenario four without the homestead exemption. >> The senior exemption? >> Right. >> I am also interested in see the exhaustive list of options that the school district provided. So as we continue these conversations we don't keep going over and over -- we don't keep making suggestions that have already been analyzed and deemed not within the scope of what is possible. I want to say thanks. This have very, very valuable discussions he Pressly in the way you presented it. >> If I can add one more comment about the outsourcing, the difficulties was the practical implementation of the outsourcing. I contacted a number of entities that didn't have the capacity especially in the public safety. I hit some inroads on some possibilities there. But certainly, I think if we maybe did something more public on our rfp process that might result in additional opportunities that I had not yet explored. So, I looked at a number of different entities in Austin, different public safety organizations, all of which didn't have the capacity to meet the standards for service or couldn't absorb the number of personnel that we were sort of exploring.

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But certainly we can go back and do more due diligence with the outsourcing possibilities. >> I appreciate your comments. Thank you for that. What I was trying to figure out what the finances would look like. We're outsourcing to be logistically possible. What would the financial chart look like on cent year four? I wasn't really providing -- I didn't mean to be providing direction to continue to see if there's an organization that would absorb those employees. I was just wondering if there was -- whether there would be an additional 10 million or if it's more complicated. I guess it depends a lot where they would be outsourced to, so -- >> I think -- >> If that's not a valuable exercise -- >> We can update that very quickly. Just in general, say you want to think about it sooner than we can get it to you. The more we outsource the more it resembles scenarios one and two and the wills he we do it's more like three and four. The numbers are a little different than one and two. We'll update that. But the mechanics will be the same. >> I wanted to say real quick. On the document, maybe we add scenario number five which is the last point, on page two where we simply look at funding without doing a tax swap and adding that askrener Yo number five and what I was going to say, one of the things we need to take into consideration, along the question of the decision tree is putting together a time table when decisions might be made because I know we might have different budget schedules. We adopt our budget in the middle of June to coincide with our school year. You all adopt your budgets and they go into effect object 1. Ours run from July 1 to July 1. I want to say from an equity perspective, we have a lot of discussions at the regional affordability where we have representatives from Leander aid.

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Pflugerville was invited to participate. A lot of discussions have been occur in almost two year. So I encourage my colleagues and other aids to Mike sure they come to the meeting. We own had a few

districts come to the meetings. I agree, maybe you can update us on the exhaustive list. I think I remember that but it would be helpful so mayor pro tem's point we don't continue to repeat the same things. >> Yes. Sorry. >> I would like to also thank the city for being so persistent in this and continuing to work with our staff on this. A lot of trustees haven't been -- still have a lot to learn about this as you all are, too. So I know we'll get all of this information to the other trustees. I think what might also be really powerful, not related to this exercise exactly, is how this city approaches the next legislative session and perhaps you can even get your other peers across the state, to other city. If you all put as one of your top priorities, reworking the entire school, finance system, if every city looks at it as an economically -- economic development issue, and takes that cause to the legislature with the school districts with our chambers of commerce and with many other organizations, I think that could be really powerful. I hope Houston will be doing that, Dallas, all of our small towns as well. If that was number one on your list of city priorities, if I could be so bold, or at the top, maybe the top ten or so. I do think that might be powerful. It's not just the school districts and trustees going back and saying we need this help, we need this relief. You recognize it for us and for our taxpayers, too. We really want the best for everybody. If we don't have the updated

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formulas. And a new whole system of how we're going to finance our schools, I just don't think anything will get better in this state and we'll really be paying for it in the next decade or two. Thank you very much to all of the city council for working with us and continuing to see this is such a priority. >> Thank you. I do want to say that it's been encouraging that the governor for the state of Texas and the speaker of the house have identified this issue as a priority next to legislative six and specifically school finance. There's broad recognition, bipartisan recognition that the system is broken and so, hopefully we -- there will be the will to get something done. But some specific concerns. I have never been comfortable with the outsourcing of public safety for our schools. They are given just the nature of the work and we're dealing with students. So I was at -- I was actually glad to see there's an analysis that pulled that out. I think if we are talking about outsourcing, it would be with labor representatives now. I know I, myself, when I was board president, did speak to the president of the teachers organization, and so they know that these conversations are happening, but I think that it would be worth while and important to circle back, for leadership of both the city and the school district to circle back to engage in those conversations and finally, while I know the city of Austin has some of the best attorneys on staff, I know just like doctors, there are difference of opinions how we might be able to legally

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move forward on situations like this. So, I'm wondering if there's a way we might be able to -- because I know you all get briefed on legalish news executive session but we don't have the benefit of knowing where -- what advice you're given, or what the challenges are, so I wonder if there's a way for the school district's legal representation to get the benefit of some of that knowledge, whether there's a joint executive session meeting, or whether there's just a meeting between attorneys, but I would just like to ask if there were a way that we might be able to have the benefit of some of those, some of that information that's being chaired with the policymakers, we would appreciate that. I would appreciate that. I think that's something we would have to talk with Ann Morgan about. >> A little bit in regards to time line. We asked to report back to the full city council by November 12st. My intent would be to send a memo saying we needed a little more time to work on this and I would ask -- we can run some of these scenarios, pull together a list of other aisd programs that were looked at and not found to be eligible for the tax swap criteria. Is there a desire to get this group back together at some point in the future? >> I

wouldn't call that quite yet. Let's see how the conversation goes. The other information I think would be really helpful is knowing, if we were to equalize by school district that are not in the city, either by tax payer or by student, what would that look like in terms of additional funding or equalization funding. I don't have a feel how many tax payers or students there are >> I would be interested in seeing both of those numbers

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because it's my -- vague memory of it is there aren't very many students and I don't know how that compares to the number of taxpayers. >> I think it would be helpful to have this group together again but we can figure out what the timing is because I found this conversation very helpful. >> Mayor Adler: What I wouldn't mind doing because calendars get so tough, I've rethought this, I think it might be helpful if we put something toward the end of November or the first week in December, to give us time to be able to pursue that, but maybe we could get a placeholder or calendar date so people could plan around it. That might very well be helpful. >> Kitchen: That works. Then we can come back together as needed. We would have it. >> Mayor Adler: Okay. >> We'll take care of that. >> Mayor Adler: Great. Thank everybody for coming and participating. In this. And thank you for -- both of you for teaching us. I think we're done. Thank you.